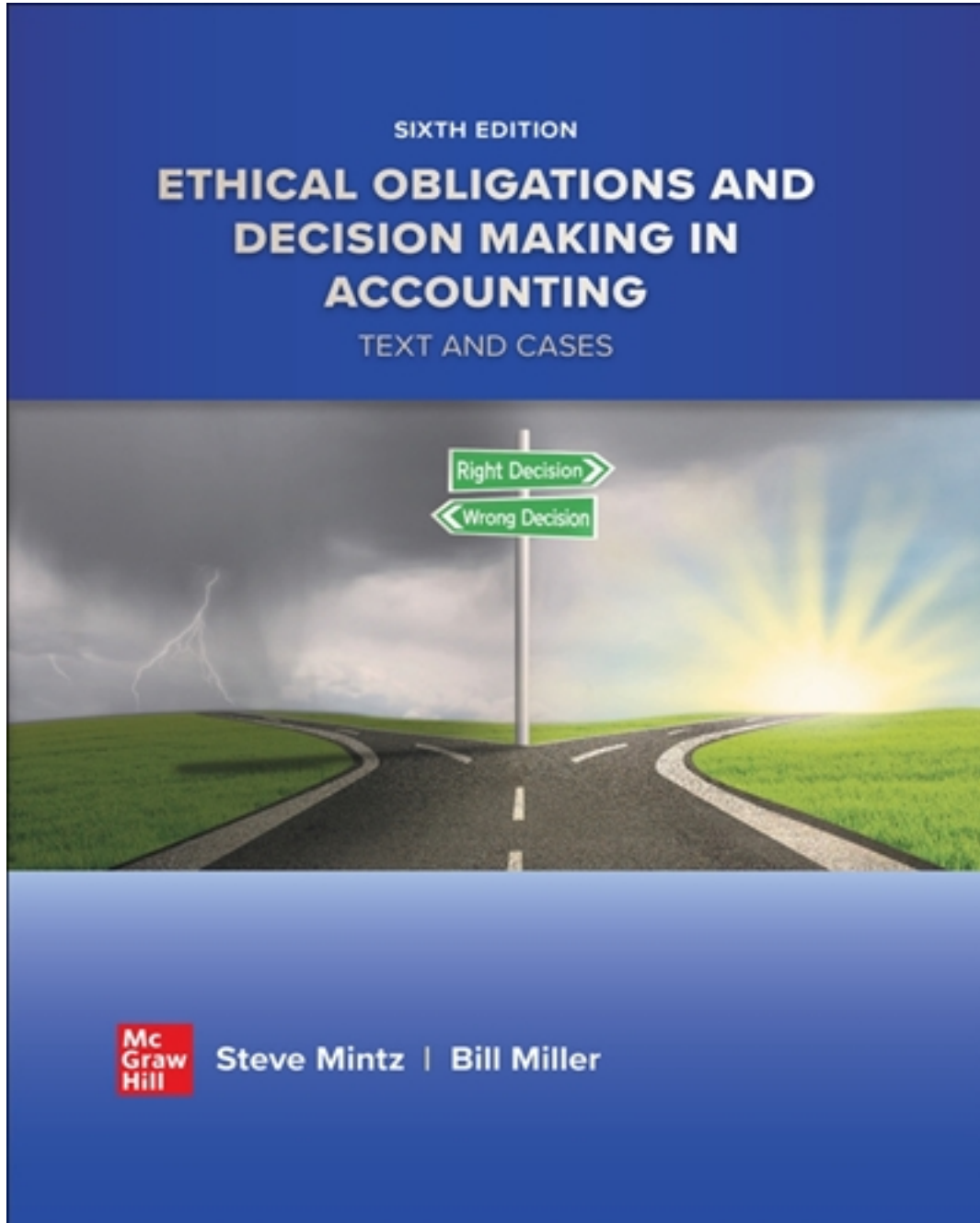


# Test Bank for Ethical Obligations and Decision Making in Accounting Text and Cases 6th Edition by Mintz

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# Test Bank

# Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.**

- 1) When Sally is asked why she should share her toys with her sister, she responds by saying "Because my mom says I have to and if I don't I'll go to time-out." In which stage of moral development is Sally?
  - A) conventional morality
  - B) nonconventional morality
  - C) postconventional morality
  - D) preconventional morality
- 2) In reference to Rest's four-component Model of Morality, which component reflects an individual's willingness to place ethical values ahead of non-ethical values that relate to self-interest?
  - A) moral character
  - B) moral motivation
  - C) moral sympathy
  - D) moral judgment
- 3) The cognitive development approach refers to
  - A) the thought process followed in one's moral development.
  - B) the method of moral reasoning used in decision making.
  - C) the exercise of professional judgment in decision making.
  - D) the approach to giving voice to one's values.
- 4) Kohlberg's model can best be described as
  - A) the various phases in one's moral development and related levels of moral reasoning.
  - B) a model of ethical action that is based on the belief that one will not report incidents of wrongdoing if they believe others will report it.
  - C) a predictive tool to determine how a person will reason ethically based on one's views on diversity.
  - D) a model of age-specific levels of moral reasoning.

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 5) In the "Heinz and the Drug" case described in the chapter, if Heinz was reasoning at stage 5 he might decide to steal the drug based on which of the following reasonings?
- A) Heinz should steal the medicine, because he will be much happier if he saves his wife, even if he will have to serve a prison sentence.
  - B) Heinz should steal the medicine, because his wife expects it.
  - C) Heinz should steal the medicine, because the law prohibits exceptions.
  - D) Heinz should steal the medicine, because everyone has a right to live, regardless of the law.
- 6) Which of the following might *not* describe Heinz's thought process in deciding whether to steal the drug if he were at stage 6?
- A) Heinz should steal the medicine, because everyone has a right to live, regardless of the law.
  - B) Heinz should steal the medicine, because saving a human life is a more fundamental value than the property rights of another person.
  - C) Heinz should not steal the medicine, because that violates the golden rule of honesty and respect.
  - D) Heinz should not steal the medicine, because the scientist has a right to fair compensation.
- 7) In stage 1 of Kohlberg's model, ethical reasoning is motivated by
- A) fear of punishment.
  - B) satisfaction of one's needs.
  - C) following the law.
  - D) acting based on universal ethical principles.
- 8) In stage 3 of Kohlberg's model, ethical reasoning is motivated by
- A) satisfaction of one's needs.
  - B) acting in the best interests of others.
  - C) upholding the rights, values, and legal contracts of society.
  - D) acting based on universal principles.
- 9) In stage 5 of Kohlberg's model, ethical reasoning is motivated by
- A) acting in the best interests of others.
  - B) following the law.
  - C) upholding the rights, values, and legal contracts of society.
  - D) acting based on universal principles.

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 10) Individuals who reason at stage 6 incorporate ethical reasoning based on
- A) the morality of law and duty to the social order.
  - B) a rational calculation of benefits and harms to society.
  - C) universal ethical principles.
  - D) All of these choices are correct.
- 11) A client asks his accountant to ignore a mistake which overstated the accounts receivable account. The accountant decides that the accounts receivable account has to be corrected to state the correct amount based on the current accounting rules. Which stage of Kohlberg' Stages of Moral Development is the accounting reasoning?
- A) Stage 2
  - B) Stage 3
  - C) Stage 4
  - D) Stage 5
- 12) Which concept involves understanding each other and moving beyond simple tolerance to embracing and to celebrating the rich dimensions of individuality?
- A) diversity
  - B) equity
  - C) inclusion
  - D) sensitivity
- 13) Which concept is thought of in terms of equal opportunity that fits a person's circumstances and abilities?
- A) diversity
  - B) inclusion
  - C) equity
  - D) sensitivity
- 14) Rest's "Four Component Model of Morality" can best be described as
- A) a model of moral development based on one's diversity perspective.
  - B) a model of the relationship between ethical action and one's level of moral development.
  - C) a model of moral judgment based on one's possession of certain virtues of behavior.
  - D) an approach to ethical decision making based on prescribed steps in making ethical decisions.

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## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 15) Assume you were assigned a term paper and decided to surf the web to identify a provider of papers for a fee. You chose what you thought was the best paper available. With respect to Rest's model of morality, it can be said that
- A) your actions lack moral sensitivity.
  - B) your actions are based on moral judgments.
  - C) you are making judgments based on expectations of your peer group.
  - D) you have made a decision based on the common good.
- 16) Yvonne is preparing a tax return for Jack. Jack wants to claim his nephew as a dependent even though he does not meet the criteria. Jack says if Yvonne does not list his nephew as a dependent, he will fire her and find a new tax accountant. Yvonne refuses because it is illegal to claim a dependent that does not meet the qualifications. Based on Yvonne's decision, she is likely reasoning at which stage of Kohlberg's moral development model?
- A) Stage 2
  - B) Stage 3
  - C) Stage 4
  - D) Stage 5
- 17) James Rest's model of ethical action involves four components inherent to the ethical decision-making process. Which of the following relates to a person's moral judgment of what ought to be done?
- A) interpreting a situation as a moral dilemma
  - B) willingness to place ethical values ahead of non-ethical values
  - C) intention to act ethically aligning to his values
  - D) outcome of one's prescriptive reasoning
- 18) Thorne's "Integrated Model of Ethical Decision Making" can best be described as
- A) a depiction of a model of moral development.
  - B) a depiction of how the Principles in the AICPA Code of Professional Conduct influence decision making.
  - C) a model of the role of virtue in decision making.
  - D) a model of the role of moral development and virtue in decision making.
- 19) In Thorne's model of ethical decision making, the instrumental virtues relate to
- A) moral sensitivity.
  - B) ethical reasoning.
  - C) ethical motivation.
  - D) ethical character.

# Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 20) A criticism of the Kohlberg model is that it
- A) suggests that people continue to change their decision priorities over time.
  - B) considers development of moral reasoning necessary to be a moral person.
  - C) makes deontological ethics superior to other ethical perspectives.
  - D) considers all complexities of decision making and behavior.
- 21) Using the conventional level of moral reasoning which is most likely the rationalization to Heinz's dilemma?
- A) Saving a life is more important than keeping the law.
  - B) The needs of society are considered most.
  - C) The needs of the wife needing the drug are considered most.
  - D) The needs of the husband making the decision are considered most.
- 22) A(n) \_\_\_\_\_ workforce is one where similarities and differences among employees in terms of different dimensions are molded together to produce the best outcome.
- A) operational
  - B) cognitive
  - C) analogous
  - D) diverse
- 23) Which describes unwelcome behavior that is severe, pervasive, or persistent enough to create a hostile or intimidating work environment?
- A) earnings management
  - B) sexual harassment
  - C) diversity, equity, and inclusion
  - D) cognitive dissonance
- 24) The philosophical methods of moral reasoning suggest that once we have ascertained the facts, we should ask ourselves certain questions when trying to resolve a moral issue. Which of the following is *not* one of those questions?
- A) Which course of action maximizes my net benefits?
  - B) Which course of action develops moral virtues?
  - C) Which course of action advances the common good?
  - D) What benefits and what harms will each course of action produce and which alternative will lead to the best overall consequences?

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 25) In organizations, a critical component of creating an ethical organization environment includes shared values, beliefs, goals, norms, and problem-solving mechanisms. These items can be described as
- A) conventional morality.
  - B) moral character.
  - C) diversity.
  - D) organizational culture.
- 26) In organizations, the ethical environment that is created in the workplace by the organization's leadership is commonly called the
- A) tone at the top.
  - B) moral character.
  - C) diversity.
  - D) organizational culture.
- 27) In organizations, the moral atmosphere of the work environment and the level of ethics practiced within a company is called the
- A) tone at the top.
  - B) moral character.
  - C) climate.
  - D) organizational culture.
- 28) Which of the following connect the integrated ethical decision-making process with Rest's framework?
- A) identify the ethical and professional issues and ethical behavior
  - B) identify and evaluate alternate courses of action and ethical sensitivity
  - C) reflect on the moral intensity and virtues that enable action and ethical intent
  - D) take action and ethical judgment
- 29) Wanda is faced with an ethical dilemma. She knows her supervisor, the CFO, wants to accelerate the recoding of revenue to an earlier period to "make the numbers," but Wanda is convinced this would violate GAAP. If Wanda reasons at stage 4 of Kohlberg's model, she is most likely to
- A) make a decision based on what is in her own best interests.
  - B) consider the interests of the stakeholders but decide based on what is in her best interests.
  - C) refuse to record the transaction as desired by the CFO.
  - D) inform the board of directors of the difference of opinion with the CFO.

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 30) Keesha is the CEO of a publicly-owned company. She was informed by the CFO that the company's earnings were down 30 percent from the prior year due to the recession. The company's stock price has declined by 20 percent. The CFO comes up with a scheme to hide debt and inflate revenues by selling underperforming assets to a special purpose entity affiliated with the company. Keesha is concerned about possible effects on the creditors but ultimately she agrees to the accounting. Keesha is reasoning at
- A) Stage 1.
  - B) Stage 2.
  - C) Stage 3.
  - D) Stage 4.
- 31) Rosie is the external auditor of Texas Two Steps, a privately-owned dance company in Texas. Rosie believes the owner of the company is skimming cash off the top. She approaches the owner who explains that the money will be replaced in the following month after he refinances his house. Rosie accepts the owner's explanation but reclassifies the expenditure as a receivable of the company from the owner. Rosie's reasoning best reflects
- A) Stage 1.
  - B) Stage 2.
  - C) Stage 3.
  - D) Stage 4.
- 32) Steve is in charge of accounting for the purchase of equipment at Cal Works, Incorporated. The company has a policy that all expenditures greater than \$1,000 (1% of total expenditures) have to be capitalized; less than \$1,000 expensed. Steve is under pressure to report high earnings. He takes one \$600 and \$900 expenditure, adds them together, and records a capital expenditure for \$1,500. Which of the following reasons and rationalizations might Steve use for his action
- A) one-time request.
  - B) standard Practice.
  - C) representational faithfulness.
  - D) materiality.
- 33) Which bias involves a belief that the world is more predictable than it actually is?
- A) deterministic bias
  - B) hindsight bias
  - C) framing bias
  - D) attribution bias



## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 34) Which bias involves a tendency to believe past outcomes were expected or known before they occurred?
- A) authoritative bias
  - B) framing bias
  - C) hindsight bias
  - D) oversimplification bias
- 35) Which bias involves a belief that theories about the world also suggest that we tend to blame individuals for events, rather than their work environment, policies and procedures, or incentive programs?
- A) attribution bias
  - B) hindsight bias
  - C) framing bias
  - D) financial bias
- 36) Daniel Kahneman's System 1 thinking is described by all of the following except for
- A) automatic.
  - B) emotional.
  - C) intuitive.
  - D) reflective.
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- 37) Which of the following statements best describes System 2 thinking?
- A) System 2 operates automatically and quickly, with little or no effort and no sense of voluntary control.
  - B) System 2 allocates attention to the effortful mental activities that demand it, including complex computations.
  - C) An example of System 2 thinking is detecting that one object is more distant than another.
  - D) An example of System 2 thinking is effortlessly originating impressions and feelings about an event.
- 38) Cognitive dissonance creates a problem that can be described as
- A) inconsistency between thoughts and beliefs and our intended actions.
  - B) consistency between thoughts and beliefs and our intended actions.
  - C) reducing the importance of the beliefs and attitudes on our actions.
  - D) acquiring new information that outweighs the dissonant beliefs.

# Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 39) An example from the book of someone who may have experienced cognitive dissonance is
- A) Joe Paterno.
  - B) Cynthia Cooper.
  - C) Betty Vinson.
  - D) Richard Scrushy.
- 40) Which of the following characteristics is *not* part of the behavioral approach, Giving Voice to Values?
- A) Uses post-decision-making
  - B) Capacity to express one's values
  - C) Employs traditional philosophical reasoning
  - D) Counteracts reasons and rationalizations
- 41) In using the GVV framework, which of the following is **not** a question to pose for dealing with the opposing points of view?
- A) What is the way to appeal all parties?
  - B) What is at stake for the key parties?
  - C) What is your most powerful and persuasive response you need to address?
  - D) What levers can you use to influence others?
- 42) In the A Team Player case discussed in the chapter, which is the primary reason and rationalization that Barbara may need to counter for not informing Jessica of the inventory deficiency?
- A) The inventory deficiency is immaterial.
  - B) Not accounting for the inventory deficiency is standard practice.
  - C) The inventory deficiency is not the team's responsibility.
  - D) The inventory deficiency is a one-time occurrence and will not happen again.
- 43) Which of the following is *not* one of the levers Larry Davis might use to convince Paul Jones about the rightness of his point of view in the Ace Manufacturing case discussed in the chapter?
- A) Davis can ask Paul Jones for supporting documentation to back up the coding of expenses to different accounts.
  - B) Davis can try to convince Paul that his actions are harmful to the company and potentially very embarrassing for his dad.
  - C) Davis can threaten to go to all the owners if Paul doesn't admit the mistake and take corrective action.
  - D) Davis can threaten to go to the SEC to protect shareholder interests if Paul agrees to pay back the amounts taken out of the company and correct the accounting.

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 44) Assume your values conflict with what you are being asked to do. Under the Giving Voice to Values methodology, which of the following statements reflects the thought process you might have in developing a game plan to voice your values?
- A) Use philosophical ethical theories to reason through alternative courses of action.
  - B) Use the ethical decision-making model to evaluate the ethics of the situation.
  - C) Reflect on the objections that might be raised to your intended expressed views.
  - D) Use Systems 2 thinking to decide on a course of action.
- 45) Gabby has just left a meeting with the partner in charge of an audit engagement and was told to ignore the typical year-end accrual entries because earnings are below financial analysts' earnings expectations. Gabby knows this is wrong and wants to act on her values but she does not want to lose her job. What is the best thing for Gabby to do in this situation if she chooses to voice her values?
- A) quit the firm
  - B) speak with the managing partner of the firm
  - C) inform the SEC of the difference
  - D) All of these choices are correct.
- 46) Which of the following describes the ethical conflict in A Team Player?
- A) There is no conflict; Barbara and Diane both identify the deficiency.
  - B) The conflict is between Diane and the rest of the audit team on whether there is a deficiency.
  - C) The conflict is between Barbara and Haley, and the rest of the team as to whether or not to take the deficiency to Jessica, the audit senior.
  - D) The conflict is between Barbara and the rest of the team as to whether or not to take the deficiency to Jessica, the audit senior.
- 47) Which of the following best characterizes the ethical conflict Alex is facing in the FDA Liability Concerns?
- A) Alex and Michael can't convince Gregory of the extent of the problem caused by the listeria identified by the FDA.
  - B) Alex wants to do the right thing by consumers of his salad oil products but Michael objects based on his cost-benefit analysis.
  - C) Alex and Michael want to make the plant seem as profitable as possible so the firm can do an IPO and cash out their shares but Gregory wants to inform the FDA of the extent of the listeria problem.
  - D) Gregory and Michael are using cost-benefit analysis to pay fines and do the minimum for the FDA while Alex wants to comply fully.

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 48) The ethical dilemma for Hailey in "Taxes and the Cannabis Business" case can best be described as a
- A) conflict between reporting cash sales and ignoring them.
  - B) conflict between reporting expenses and ignoring them.
  - C) lack of independence due to ties to the client entity.
  - D) lack of due care in not spotting improper tax accounting.
- 49) What ethical action should Daniel take in A Faulty Budget?
- A) Work with Pete to correct the budget so JB, Pete's boss, does not find out.
  - B) Work with Pete to keep quiet about the mistake in the budget so the new hires will not be laid off.
  - C) Tell JB about the mistake in the budget but only half of the actual mistake so that employees will not be laid off.
  - D) Tell JB about the mistake in the budget so the company can make corrections as soon as possible.
- 50) In the "Faulty Budget" case, Jackson Daniels could use all the following levers to counter the reasons and rationalizations Jimmy (Pete) Beam might give for requesting that Jackson conceal his error except
- A) stressing his ethical obligation is ensuring that employees are not laid off.
  - B) seeking advice from friends and family.
  - C) identifying individuals who can provide support.
  - D) providing a resolution to the problem rather than complaining about it.
- 51) Which of the following was not one of the recommendations that Uber implemented after charges of sexual harassment were made?
- A) training key personnel
  - B) providing an effective complaint process
  - C) encouraging quid pro quo
  - D) creating a board oversight committee
- 52) The "Milton Manufacturing" case illustrates
- A) what can go wrong when a company sets a policy that potentially harms one area of its operations.
  - B) how the failure to exercise professional skepticism can cloud objective judgment.
  - C) the pressure that can be placed on accountants by top management.
  - D) what can go wrong when fraudulent accounting is dictated by top management.

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 53) The ethical dilemma in the "Not so Diverse, Equitable or Inclusive" case can best be described as
- A) how the failure to exercise professional skepticism can cloud objective judgment.
  - B) disproportionately high turnover for persons of color and women.
  - C) improper training and supervision of new employees.
  - D) sexual harassment of young female employees.
- 54) In the Racially Charged Language case, which of the following is not one of the EDI initiatives discussed in the case
- A) create an inclusive community where all students thrive.
  - B) establish goals to retain underrepresented groups.
  - C) allow flyers using racial slurs.
  - D) implement a 12-week training program.
- 55) Cynthia Cooper's actions in the WorldCom case can be best characterized as demonstrating
- A) courage and expediency.
  - B) persistence and courage.
  - C) courage and loyalty.
  - D) persistence and loyalty.
- 56) The ethical dilemma in the Chefs Delight case can best be described as
- A) reclassification of marketable securities to increase reported income.
  - B) disproportionately high turnover for persons of color and women.
  - C) improper training and supervision of new employees.
  - D) sexual harassment of young female employees.
- 57) The ethical dissonance model looks at the ethical fit of the organizational and individual values. The optimal fit for an individual with high individual ethics would be
- A) High-High.
  - B) High-Low.
  - C) Low-High.
  - D) Low-Low.
- 58) The Ethical Dissonance Model helps to evaluate
- A) whether the organization sets an ethical tone at the top.
  - B) whether the organization has ethical leadership.
  - C) whether the organization has a whistle-blowing process.
  - D) whether the organization's ethics aligns with individual ethics.

# Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

- 59) The role of a leader in an organization is to
- A) establish principles and standards of behavior that guide business decisions.
  - B) enforce violations of code rules of conduct.
  - C) determine organizational climate and define norms.
  - D) develop the principles and strategic initiatives to guide ethical action.
- 60) An ethical climate is enhanced by all of the following except
- A) a values-driven organization.
  - B) openness and transparency.
  - C) fear of retaliation.
  - D) supportive environment.
- 61) An ethical corporate culture includes
- A) zero tolerance for individual and collective mistakes.
  - B) an explicit statement of values.
  - C) a focus on results over process.
  - D) a culture of do what I say, not what I do.
- 62) The best way to characterize the role of Sherron Watkins in the downfall of Enron is
- A) she directed the internal auditors to examine numerous transactions that led to the discovery of the fraud.
  - B) she gave in to the pressure of Andy Fastow to go along with materially misstated financial statements.
  - C) she was sent to jail even though she cooperated with the government in its case against Enron.
  - D) she tried to alert Ken Lay about the accounting scandal at Enron.

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

- 63) At which stage of moral development are most accountants and auditors with respect to their decision making? What factors are responsible for their being at that stage? Given the stage of moral development you think you are at, how does this relate to the stage of moral reasoning of most accountants and auditors? What conflicts might exist for you in the workplace?

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

64) Explain how virtue interacts with moral development in Thorne's Integrated Model of Ethical Decision-making.

65) Assume your supervisor has reduced the number of hours you charged to the client because it was over budget. You will not be paid for those hours. What would you do and why? Use ethical reasoning.

66) Describe the Giving Voice to Values framework. What are the reasons and rationalizations frequently given in financial statement fraud situations?

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67) As an executive in a mid-sized manufacturing firm, Cal finds himself thrown together with Harry, who works for a division of the firm that Cal supervises. He and Harry are in the same community; their children are in the same schools; they often show up at the same social functions; and they play golf together fairly frequently.

One day, to Cal's deep dismay, he hears that Harry has been implicated in some financial irregularities at work. The issues while serious leave some room for doubt. There is reason to think Harry got ensnared by regulations, though he may have afterward tried to cover up that entanglement by being less than forthright. Yet after what Cal observes to be a careful audit and investigation, Harry is let go from his job.

Harry comes to Cal and asks for a letter of recommendation.

What should Cal do? What are the consequences of the options?

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

68) As a professional working for a large electronics firm, Stan found himself riding a roller coaster of concern about lay-offs. Every few years, top management slashed jobs as work slacked off - only to hire again when things were looking up. So when Stan and his team members noticed that the executives were again meeting behind closed doors, they suspected the worst.

Stan's boss revealed to Stan that Stan's team member Jim was slated to lose his job. However, it was made plain that Stan was to keep that information confidential.

Not long after that conversation, Jim approached Stan and asked whether he could confirm the rumor that he would be laid off.

Stan has decided to tell Jim but first wants to convince management of the rightness of his action. What might he say to who and why? What are the reasons and rationalizations he may have to counter in making his argument?

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## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

69) Taken from Case 1-2 Giles and Regas.

Ed Giles and Susan Regas have never been happier than during the past four months since they have been seeing each other. Giles is a 35-year-old CPA and a partner in the medium-sized accounting firm of Saduga & Mihca. Regas is a 25-year-old senior accountant in the same firm. Although it is acceptable for peers to date, the firm does not permit two members of different ranks within the firm to do so. A partner should not date a senior in the firm any more than a senior should date a junior staff accountant. If such dating eventually leads to marriage, then one of the two must resign because of the conflicts of interest. Both Giles and Regas know the firm's policy on dating, and they have tried to be discreet about their relationship because they don't want to raise any suspicions.

While most of the staff seem to know about Giles and Regas, it is not common knowledge among the partners that the two of them are dating. Perhaps that is why Regas was assigned to work on the audit of CAA Industries for a second year, even though Giles is the supervising partner on the engagement.

As the audit progresses, it becomes clear to the junior staff members that Giles and Regas are spending personal time together during the workday. On one occasion, they were observed leaving for lunch together. Regas did not return to the client's office until three hours later. On another occasion, Regas seemed distracted from her work, and later that day, she received a dozen roses from Giles. A friend of Regas's who knew about the relationship, Ruth Revilo, became concerned when she happened to see the flowers and a card that accompanied them. The card was signed, "Love, Poochie." Regas had once told Revilo that it was the nickname that Regas gave to Giles.

Revilo pulls Regas aside at the end of the day and says, "We have to talk."

"What is it?" Regas asks.

"I know the flowers are from Giles," Revilo says. "Are you crazy?"

"It's none of your business," Regas responds.

Revilo goes on to explain that others on the audit engagement team are aware of the relationship between the two. Revilo cautions Regas about jeopardizing her future with the firm by getting involved in a serious dating relationship with someone of a higher rank.

Regas does not respond to this comment.

Regas promises to talk to Giles and thanks Revilo for her concern. That same day, Regas telephones Giles and tells him she wants to put aside her personal relationship with him until the CAA audit is complete in two weeks. She suggests that, at the end of the two-week period, they get together and thoroughly examine the possible implications of their continued relationship. Giles reluctantly agrees.

However, Giles appears at the CAA audit a few days later. He pulls Regas aside and states, "I do want to put our relationship on hold until after this audit."

"We cannot be talking about this now! The audit team or the client could hear."

"Then let's have dinner tonight to discuss it. I won't leave until you say yes."

"Okay."

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

As Regas is returning to the audit room, Revilo says, "The team is uncomfortable with you and Giles having personal conversations in front of them. You promised this would stop."

"I appreciate your concerns again. I am working on it! Please give me some time and space."

"You don't have much time. Some of the teams are talking of going to HR or the managing partner about the situation."

### Required:

Analyze the case using GVV.

- ☐ What are the main arguments Revilo (and the audit team) are trying to counter? What the reasons and rationalizations Revilo needs to address?
- ☐ What is at stake for the key parties?
- ☐ What levers can Revilo use to influence Regas and Giles?
- ☐ What is the most powerful and persuasive response to the reasons and rationalizations Revilo needs to address? To whom and when?

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## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

70) Taken from Case 1-7 Eating Time.

Kevin Lowe is depressed. He has been with the CPA firm Stooges LLP for only three months. Yet the partners in charge of the firm—Bo Chambers and his brother, Moe—have asked for a "sit-down." Here's how it goes:

"Kevin, we asked to see you because your time reports indicate that it takes you 50 percent longer to complete audit work than your predecessor," Moe said.

"Well, I am new and still learning on the job," replied Lowe.

"That's true," Bo responded, "but you have to appreciate that we have fixed budgets for these audits. Every hour over the budgeted time costs us money. While we can handle it in the short run, we will have to bill the clients whose audit you work on a larger fee in the future. We don't want to lose clients as a result."

"Are you asking me to cut down on the work I do?" Lowe asked.

"We would never compromise the quality of our audit work," Moe said. "We're trying to figure out why it takes you so much longer than other staff members."

At this point, Lowe started to perspire. He wiped his forehead, took a glass of water, and asked, "Would it be better if I took some of the work home at night and on weekends, completed it, but didn't charge the firm or the client for my time?"

Bo and Moe were surprised by Kevin's openness. On one hand, they valued that trait in their employees. On the other hand, they couldn't answer with a yes. Moe looked at Bo, and then turned to Kevin and said, "It's up to you to decide how to increase your productivity on audits. As you know, this is an important element of performance evaluation."

Kevin cringed. Was the handwriting on the wall in terms of his future with the firm?

"I understand what you're saying," Kevin said. "I will do better in the future—I promise."

"Good," responded Bo and Moe. "Let's meet 30 days from now and we'll discuss your progress on the matters we've discussed today and your future with the firm."

In an effort to deal with the problem, Kevin contacts Joyce, a friend and fellow employee, and asks if she has faced similar problems. Joyce answers "yes" and goes on to explain she handles it by "ghost-ticking." Kevin asks her to explain.

"Ghost-ticking is when we document audit procedures that have not been completed." Kevin, dumbfounded, wonders, what kind of a firm am I working for?

After much consideration Kevin asks for a meeting with Bo and Moe within week. Kevin does not want to take work home and off the clock. He wants the meeting to convince Bo and Moe that having auditors work off the clock and at home is not in the best interest of the firm and its mission to do independent audits with integrity, objectivity, and due professional care.

### Required:

Analyze the case using GVV.

- ☐ What are the main arguments Kevin is trying to counter? What are the reasons and rationalizations Kevin needs to address?
- ☐ What is at stake for the key parties?
- ☐ What levers can Kevin use to influence Bo and Moe?

## **Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz**

- ☐ What is the most powerful and persuasive response to the reasons and rationalizations Kevin needs to address? To whom and when?

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## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

71) Taken from Case 1-9 Cleveland Custom Cabinets.

Cleveland Custom Cabinets is a specialty cabinet manufacturer for high-end homes in the Cleveland Heights and Shaker Heights areas. The company manufactures cabinets built to the specifications of homeowners and employs 125 custom cabinetmakers and installers. There are 30 administrative and sales staff members working for the company.

James Leroy owns Cleveland Custom Cabinets. His accounting manager is Marcus Sims, who reports to the director of finance, Alison Mayhew. Sims manages 15 accountants. The staff is responsible for keeping track of manufacturing costs by job and preparing internal and external financial reports. The internal reports are used by management for decision making. The external reports are used to support bank loan applications.

On April 10, 2016, Leroy came into Sims's office to pick up the quarterly report. He looked at it aghast. Leroy had planned to take the statements to the bank the next day and meet with the vice president to discuss a \$1 million working capital loan. He knew the bank would be reluctant to grant the loan based on a net income of \$90,000 on revenue of \$6,400,000.

Without the money, Cleveland could have problems financing everyday operations.

Leroy called Mayhew to come to Sims's office. Leroy then asked for an explanation of how net income could have gone from 14.2 percent of sales for the year ended December 31, 2015, to 1.4 percent for March 31, 2016. Sims pointed out that the estimated overhead cost had doubled for 2016 compared to the actual cost for 2015. He explained to Leroy that rent had doubled and the cost of utilities skyrocketed. In addition, the custom-making machinery was wearing out more rapidly, so the company's repair and maintenance costs also doubled from 2015.

Leroy wouldn't accept Sims's explanation. Instead, he told Sims that the quarterly income had to be at least the same percentage of sales as at December 31, 2015. Mayhew agreed with Leroy and said there had to be a mistake and it would be corrected. Sims looked confused and reminded Leroy and Mayhew that the external auditors would wrap up their audit on April 30. Leroy told Sims not to worry about the auditors. He would take care of them. Furthermore, "as the sole owner of the company, there is no reason not to 'tweak' the numbers on a one-time basis. I own the board of directors, so no worries there." He went on to say, "Do it this one time and I won't ask you to do it again." He then reminded Sims of his obligation to remain loyal to the company and its interests. Sims started to soften and asked Leroy just how he expected the tweaking to happen. Leroy flinched, held up his hands, and said, "I'll leave the creative accounting to you and Mayhew."

### Required:

Analyze the case using GVV.

- ☐ What are the main arguments Sims is trying to counter? What are the reasons and rationalizations Sims needs to address?
- ☐ What is at stake for the key parties?
- ☐ What levers can Sims can use to influence Leroy and Mayhew?

## **Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz**

- ☐ What is the most powerful and persuasive response to the reasons and rationalizations Sims needs to address? To whom and when?

72) Explain what is meant by the ethical-person organization exchange and ethical dissonance including its implications for workplace ethics.

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## Answer Key

Test name: Chapter 02

- 1) D
- 2) B
- 3) A
- 4) A
- 5) D
- 6) D
- 7) A
- 8) B
- 9) C
- 10) C
- 11) C
- 12) A
- 13) C
- 14) B
- 15) A
- 16) C
- 17) D
- 18) D
- 19) D
- 20) C
- 21) C
- 22) D
- 23) B
- 24) A
- 25) D
- 26) A
- 27) C
- 28) C
- 29) C
- 30) C
- 31) D
- 32) D
- 33) A
- 34) C
- 35) A
- 36) D

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- 37) B
- 38) A
- 39) C
- 40) C
- 41) A
- 42) A
- 43) D
- 44) C
- 45) B
- 46) C
- 47) B
- 48) A
- 49) D
- 50) A
- 51) C
- 52) A
- 53) B
- 54) C
- 55) B
- 56) B
- 57) A
- 58) D
- 59) C
- 60) C
- 61) B
- 62) D
- 63) Essay

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## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

Kohlberg's theory of ethical development provides a framework that can be used to consider the effects of conflict areas on ethical reasoning in accounting. For example, if an individual accountant is influenced by the firm's desire to "make the client happy," then the result may be reasoning at Stage 3. The results of published studies during the 1990s by accounting researchers indicate that CPAs reason primarily at Stages 3 and 4. One possible implication of these results is that a larger percentage of CPAs may be overly influenced by their relationship with peers, superiors, and clients (Stage 3) or by rules (Stage 4). A CPA who is unable to apply the technical accounting standards and rules of conduct critically when these requirements are unclear is likely to be influenced by others in the decision-making process. If an auditor reasons at the post conventional level, then that person may refuse to give in to the pressure applied by the supervisor to overlook the client's failure to follow GAAP.

Students should pick a stage and give examples of why they are at that stage and try to link it to being an accounting professional.

### 64) Essay

One question that arises from Rest's model is how to align ethical behavior with ethical intent. The answer is through the exercise of virtue, according to a study conducted by Libby and Thorne. Professional judgment requires not only technical competence, but also depends on auditors' ethics and virtues. The authors concluded from their study that virtue plays an integral role in both the intention to exercise professional judgment and the exercise of professional judgment, and the necessity of possessing both intellectual and instrumental virtues for auditors. Thorne develops a model of individuals' ethical decision-making processes that integrates Rest's components with the basic tenets of virtue ethics theory. Her model relies on virtue-based characteristics, which tend to increase the decision maker's propensity to exercise sound ethical judgment. Thorne believes that virtue theory is similar to the approach advocated by the cognitive-developmental perspective in three ways. First, both perspectives suggest that ethical action is the result of a rational decision-making process. Second, both perspectives are concerned with an individual's ethical decision-making process. Third, both perspectives acknowledge the critical role of cognition in individuals' ethical decision making.

### 65) Essay

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

The supervisor changing your time after you worked it is a form of stealing. This question requires students to explore the pressure to cheat or lie. This is good way to discuss the slippery slope of ethical situations. It also deals with how the culture of a firm (i.e., eat time) should affect one's actions when trying to act ethically.

### Ethical Issues

*Rights Perspective:* Working without being paid is setting one up for burn-out, if not a health safety threat. Employees have the right to receive a competitive wage. One should consider the short- and long-run consequences. In the short run, one does not hurt anyone but himself and his family if he doubles up on work and sacrifices family responsibilities. In the long run, the client gets a cheaper audit and a worse audit as one will start cutting corners since one might not be paid after the fact. Going along with the supervisor starts one lying and the slippery slope of being secretive, deceitful, and telling more lies.

*Six Pillars* values include trustworthiness, responsibility, fairness, caring, and citizenship. Students should acknowledge their responsibilities not only to themselves but other staff who might get caught up in similar sacrifices. This matter needs to be brought up at the highest levels of the organization. It is dishonest, uncaring, and may establish a culture of deceit. Maybe the time budgets are too tight to support a lower bid for audit services. Does the company do this with other clients? On other audits? Am I setting myself up to fail...eventually?

66) Essay

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## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

"Giving Voice to Values (GVV)" is a behavioral ethics approach that shifts the focus away from traditional philosophical reasoning to an emphasis on developing the capacity to effectively express one's values in a way that positively influences others by finding the levers to effectively voice and enact one's values. The methodology asks the protagonist to think about the arguments others might make that create barriers to expressing one's values in the workplace and how best to counteract these "reasons and rationalizations." GVV is used post-decision-making, that is, you have already decided what to do. It can be used to ward off the necessity for whistle-blowing if by voicing values others can be convinced about the wrongness of their intended behavior/decisions.

GVV provides a framework to deal with the opposing points of view based on the following series of questions.

- ☐ What are the main arguments you are trying to counter? That is, what are the reasons and rationalizations you need to address?
- ☐ What is at stake for the key parties, including those who disagree with you?
- ☐ What levers can you use to influence those who disagree with you?
- ☐ What is your most powerful and persuasive response to the reasons and rationalizations you need to address? To whom should the argument be made? When and in what context?
- ☐ Expected or Standard Practice: "Everyone does this, so it's really standard practice. It's even expected." [TBEXAM.COM](https://www.tbexam.com)
- ☐ Materiality: "The impact of this action is not material. It doesn't really hurt anyone."
- ☐ Locus of Responsibility: "This is not my responsibility; I'm just following orders here."
- ☐ Locus of Loyalty: "I know this isn't quite fair to the customer but I don't want to hurt my reports/team/boss/company."
- ☐ Isolated Incident: "This is a one-time request; you won't be asked to do it again."

67) Essay

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

Cal is facing a dilemma of being loyal to Harry or being forthright and honest about the situation. From a deontology approach, Cal must be truthful in any letter. From Act Utilitarianism, the "best" end result may be to help Harry find another job and disguise the truth. Rule Utilitarianism would hold that it is not right to lie, as would Rights Theory. The universal perspective asks Cal to consider how he would feel if another employer wrote a dishonest letter to Cal and he hired Harry as a result. From a virtue approach, Cal will need to put himself in the position of the new employer hiring Harry and what he would want to know about Harry. All of these could be related to Kohlberg's stages of moral development also.

The consequence of these options is that Harry could obtain a job based upon Cal's recommendation. If Harry again is again found implicated in financial irregularities and if the new job found out that Cal knew, Cal's reputation will be harmed. This is a situation where empathy helps in that Cal should put himself in the position of a prospective employer of Harry. Still, it is oftentimes difficult to say something negative about an associate or friend. Some in Cal's position might inform a prospective employer that Harry was let go because of differences and leave it at that. It is kind of a half-truth that sometimes dictates the action out of loyalty to another or stage 3 reasoning rather than to view one's responsibilities to society (another firm), which requires stage 4 thinking or above.

### 68) Essay

Stan should approach Stan's boss and explain that Jim has directly asked him if he will be laid off. Jim and other coworkers have noticed the many closed-door meetings and fear that another round of lay-offs is coming. Stan should explain how Jim and coworkers would appreciate honesty and transparency in knowing about the lay-offs. The affected workers could start looking for another job. Stan needs to be empathetic to Jim's position and the concerns of other workers who have a right to know if their jobs are in jeopardy. Jim and the other workers trust Stan as the team leader to look out for their best interests in return for loyalty to the team and diligent work. Stan's boss is likely to use the reasons and rationalizations of "this is standard practice;" and "this is not my responsibility; I'm just following orders." Stan should try reasoning that his boss would want to know if he himself were being laid off. This would follow the Golden Rule, deontology, enlightened egoism, and virtues. Stan should ask his boss about who has the responsibility in making the layoff decisions; he would like to talk to that person.

If Stan acts in these ways, he will gain the trust of other employees and even management who, in the long run, may see Stan's loyalty as a plus for the firm.

### 69) Essay

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

Giles, a partner, and Regas, a senior, are working on the CAA audit and dating for the last four months in spite of the firm's policy that a relationship between two members of different ranks within the firm is not permitted. The audit team realizes that Regas and Giles are dating and are uncomfortable with the situation. Revilo lets Regas know that the team knows about the relationship, but Regas promises that she will take care of it and is not open to further discussion. After the latest witnessing of Regas and Giles at the audit, Revilo and the team need to have a discussion with Regas or Giles. At present, the team is more comfortable approaching Regas since she is their senior. The team needs to express their discomfort about Giles and Regas dating while working on the CAA audit. Revilo or another brave team member should tell Regas how knowing about the relationship makes them complicit in having to keep a secret since the firm bans relations between employees at different ranks. They can explain that some of the discomfort is the fear of how their evaluations and jobs could be affected by the relationship. Regas may explain that although the firm has a policy of no dating between ranks, many do so (standard practice rationalization). She could state that she has to work with Giles out of loyalty to wind the relationship down until after the audit (locus of loyalty). She might also state that the relationship was not intentional and just happened (form of an isolated incident). She might also state that the relationship is special because she loves Giles and he loves her.

Regas and Giles have their jobs, evaluations, and future raises at stake. Their reputations for integrity and professionalism are also at stake. The team has a tense working condition with Regas and Giles dating. The team members are fearful of what will happen if they keep quiet, or if they speak up about the relationship. The accounting firm has its reputation at stake to provide an audit with integrity and due professional care. The client and the public have an independent audit at stake. That is, if the client or the public finds out about the relationship of Giles and Regas it could taint whether the audit was independent, done with integrity and due professional care.

Revilo and the team should use the lever of Regas should not jeopardize her reputation as a CPA by breaking the policy as it calls into question whether Regas and Giles are breaking other rules and policies. Have they been cutting corners in performing the audit because their attention has been diverted by the dating relationship? Other levers might be that the team might go to HR, or maybe one of the mentors assigned to the team members. The team members might explain that Regas seems to be acting out of self-interest or egoism. They should encourage Regas to act out of virtues, deontology, and utilitarianism and CPA principles of integrity and due professional care.

Revilo and the team should confront Regas at the end of the work day to express their concerns on Regas's relationship with Giles. It is possible that the students will consider the threat to go to HR as the most powerful and persuasive argument. The team or Revilo could approach HR and simply state they are concerned that Regas' attention has been diverted and they hope she is all right.

70) Essay

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

Kevin is trying to counter the arguments that staff working hours without charging the client or being paid for the time worked is good for the accounting firm, the client, and the staff. From a rights perspective, working a regular overtime without being paid or an overnighiter is setting one up for burn-out, if not a health safety threat. Employees have the right to receive a competitive wage. There are short- and long-run consequences of having staff work overtime without being paid. In the short run, Kevin does not hurt anyone but himself and his family if he doubles up on work and sacrifices family responsibilities. In the long run, the client gets a cheaper audit and a worse audit if Kevin starts cutting corners; the partners get higher profit than if the staff was paid for actual hours worked. The long-term effect to Kevin is that he learns secrecy, deceit, and lies. The Six Pillars of Character includes the values of trustworthiness, responsibility, fairness, caring, and citizenship.

Bo and Moe will likely use the reasons and rationalizations of having staff work without being paid for overtime as the expected or standard practice in public accounting. It could be explained as an isolated incident by rationalizing that it is a one-time request for the current engagement only or, that it is not that much time being "eaten" (materiality) and only would occur during busy season (isolated incident). The locus of loyalty reason to service the client within budget might be given. The firm expects loyalty from their workers and to act in the best interests of the firm and its clients.

The key parties have much at stake. Bo and Moe and the firm have their reputations for high-quality audits performed with due professional care. Kevin has his job and reputation as a team player at stake. The other staff members of the firm have the potential of being paid for overtime instead of being pressured to work overtime without being paid. The clients have the potential of higher cost audits in the future to pay all of the staff's hours worked, but should be assured that the audits will be performed with due diligence and professionalism. The accounting profession and public have the reputation of quality audits in the free market system at stake.

Kevin should use the principles of the accounting profession — independence, integrity, objectivity, and due professional care — as levers to influence Bo and Moe. He should also use the ethical reasoning of virtues, deontology, rule utilitarianism, enlightened egoism to support his view. He should emphatically state the risk for the firm's and individual CPAs' reputation if corners are cut due to working overtime. Cut corners can lead to audit failures, if materials errors and frauds are not discovered in the audit.

The most powerful and persuasive argument could be that Bo and Moe are wrong in their thinking. They are using the challenge of which staff are willing to work overtime without being paid to determine loyalty to the firm and which staff might be long term employees. Kevin can explain how the paying staff for all hours worked would build greater loyalty to the firm. Staff would see that the firm is committed to the profession, high quality audits, and to their staff. Loyalty builds loyalty. Caring and empathy are virtues that employees cherish in their bosses. Although some students may feel this is going too far, Kevin might explain that staff training did not prepare him for the extreme pressures of working within a tight budget and client concerns when that doesn't occur. While not accusing the firm of any impropriety, Kevin might use the

## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

leverage that he will improve over time in both speed and efficiency as he gains more confidence on audits. He should show Bo and Moe that he is committed to the job and is hoping to build a long-term career with the firm. This may soften the blow of Kevin not simply rolling over and "eating time."

71) Essay

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## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

Sims is trying to counter the arguments that having fraudulent quarterly financial statements to obtain a bank loan does not harm anyone and is okay to do as Leroy is the owner of the company. The stakeholders (employees, bank, other creditors, regulators, and shareholders) of the firm have a right to financial statements that follow GAAP and have adequate disclosures. From a deontology perspective, Marcus Sims should follow the rules of the profession: i.e., GAAP and no subordination of judgment. From a utilitarian perspective all the stakeholders should benefit, not just Leroy the owner. In adjusting the numbers in order to obtain a bank loan, the bank could be greatly harmed in order to benefit one stakeholder, Leroy. If Sims should give into Leroy, then it could be easier to subordinate judgment in the future and may give Leroy the means to blackmail subordination easily.

Leroy and Mayhew might use the reason and rationalization of materiality, although that clearly is not the case - the difference is material in amount. More likely they will tell Sims it is a one-time request (isolated incident) and being a team player is expected at the company (locus of loyalty).

From the facts of the case, we can surmise that Leroy and Mayhew are looking at the short-term goal of obtaining a bank loan versus the long-term effect on reputation. The loan needed from the bank may be considered immaterial in amount but it is material to the continuation of the company's operations. Leroy has already stated that "Do it this one time and I won't ask you to do it again." However, a one-time request to alter the financial statements often turns into an on-going requirement.

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The key parties have much at stake. Leroy, Mayhew, and the firm have their reputations for quality manufacturing and corporation citizenship at stake. Sims has his job and reputation as an accountant at stake. Leroy has already mentioned to Sims that he expects loyalty and Sims to go along. Sims is facing going along with Leroy and being a fall guy when the fraud is uncovered, or losing his job and having a terrible recommendation from Leroy and Cleveland Custom Cabinets as he searches for a new job. The other employees of the firm have the potential of being laid off. The public, bank, creditors, and regulators have an expectation of receiving financial statements and disclosures in accordance with GAAP without fraud or deception. A financial fraud leads to loss of money by investors, creditors, and the public, as well as faith in the free market system.

The integrity of both officers and culture of the company leaves much to be desired. Sims should use the principles of integrity, fairness, and trustworthiness as levers to influence Leroy and Mayhew. He should also use the ethical reasoning of virtues, deontology, rule utilitarianism, enlightened egoism to support his view.

Even though the case is silent whether Sims is a CPA, professional accountants typically hold themselves to high ethical standards such as those in the AICPA Code of Professional Conduct. Sims should explain this to Leroy.

The most powerful and persuasive argument could be that Sims would go to the audit committee and the external auditors to let them know about the altering of the financial statements. Even though Leroy has told Sims not to worry about how they might react, when push comes to shove



## **Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz**

Leroy might back down especially since it is unlikely to be true that Leroy could simply dismiss the external auditors because Leroy "would take care of them."

72) Essay

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## Ethical Obligations and Decision Making in Accounting Text and Cases Edition 6 by Mintz

The ethical-person organization exchange refers to how the ethics of an individual in an organization fits with the ethics of the organization. The fit has many implications for building an ethical workplace environment.

Mary Jo Burchard of Regent University explains what she calls "the Ethical Dissonance Model" to illustrate the interaction between the individual and the organization, based on the person-organization ethical fit at various stages of the contractual relationship in each potential ethical fit scenario. This is an important consideration because the ethics of an individual influence the values that one brings to the workplace and decision making, while the ethics (through its culture) of an organization influence that behavior.

Of the four potential fit options, two possess high person-organization fit: (1) high organizational ethics, high individual ethics (High-High), and (2) low organizational ethics, low individual ethics (Low-Low); and two possess low person-organization fit: (1) high organizational ethics, low individual ethics (High-Low) and (2) low organizational ethics, high individual ethics (Low-High).

Imagine that you are working on a project and your boss directs you to do something that you believe is unethical. Maybe it is to fudge the numbers to make the project look more successful than it is. If the organizational fit is Low-High, you have a problem. Your ethical standards are higher than the organization you work for. How will you deal with the dilemma?

In this case we have what is referred to as "ethical dissonance." "Ethical dissonance" is the psychological tension between an employee and the organization when the ethical fit is not a good one. When your standards of behavior differ from the organization's standards, you will feel uncomfortable and torn between doing what you know is the right thing to do as opposed to what may be expected of you by the organization.

The underlying problem in this case is a difference in values. The individual values honesty while the organization values loyalty. It expects you to be a team player and go along with the fudged numbers. Given the Low-High fit, you will be under a significant amount of pressure to "take one for the team." However, once you compromise your beliefs, it won't be long before you begin the slide down the proverbial ethical slippery slope.

A reduction in job satisfaction is likely if an employee striving to be ethical perceives little top management support for ethical behavior, an unfavorable ethical climate in the organization, and/or little association between ethical behavior and job success. Once this "ethical dissonance" is discovered, the likelihood of employee turnover rises.

Creating an ethical organization environment is a process that aims to have a High-High fit and one that brings about ethical awareness, expected standards of behavior, and an action plan to ensure the organization's values form the foundation for all decisions. Incorporating the ethical fit into ethics training can help to align organizational and individual goals and motivation for behavior.

## CHAPTER 2 – Additional Discussion Questions

The following Discussion Questions come from the 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> editions of the book. These questions are not used in the 6<sup>th</sup> edition.

1. Some empirical research suggests that accountants and auditors may not achieve their higher levels of ethical reasoning. Why do you think this statement may be correct?

Kohlberg was working on stage 6 at the time of his death and believed that this stage rarely occurred. Published studies during the 1990s indicate that CPAs reason primarily at stages 3 and 4. CPAs are influenced by relationships with peers, superiors, and clients (stage 3) and by the rules (stage 4). One hindrance to reaching stage 6 is that there are no universal accounting rules as the convergence to a single set of standards is showing. However, CPAs should be moved to reason at stage 5 and evaluate harms and benefits of actions on stakeholders; be far-minded and objective; and act in a virtuous manner.

2. Arthur Andersen LLP was the auditor for Enron, WorldCom, Waste Management and other companies that committed fraud. Andersen was forced to shut its doors forever after a U.S. Department of Justice lawsuit against the firm that it had obstructed justice and lied to the government in the Enron case. One thing Andersen had done was to shred documents related to its audit of Enron before the government could get its hands on them. Some in the profession thought the government had gone too far given the facts and mediating circumstances including top management's deception; others believed the punishment was unjustified because most accounting firms got caught up in similar situations during the late 1990s and early 2000s (pre-Sarbanes-Oxley). What do you believe? Use ethical reasoning to support your answer.

At the time of Enron and Andersen scandal, most of the big accounting firms were making more off of consulting engagements rather than auditing engagements. (Urban legend has it that one accounting firm even paid \$10,000 to a company in order to obtain the company's audit engagement, which was tied to a consulting engagement.) Auditing engagements had become the loss leader for the firms. The large consulting engagements affected the independence of the audit in appearance, if not in fact. Using the utilitarianism approach, one could argue that keeping the client happy on an audit was in the greater good of the accounting firm, the client, shareholders, public, suppliers, employees, and the market. Using the Golden Rule approach, one could argue that in order for the accounting firms to be considered trusted advisers, they could not disapprove of every business of the client; all CPAs had to treat their clients in this way, at least prior to Sarbanes-Oxley. By becoming trusted advisers, the clients would then award more consulting contracts, and the firms would benefit. Using the deontology approach, the firms had a duty to protect the confidentiality of the client. Therefore, documents should be shredded and not turned over to the authorities. All these have a fallacy of confirming the consequences. In

other words, the ends do not justify the means. There is no ethical justification to destroying documents to “save a client.”

- 3. We have discussed the role of Sherron Watkins in the Enron fraud. Evaluate Watkins’ thought process and actions from the perspective of Kohlberg’s model. Do you think she went far enough in bringing her concerns out in the open? Why or why not?**

Watkins identified the ethical issues in the Enron debacle. She was motivated to do the right thing by self-interest and possibly enlightened egoism; this implies that Watkins was at Kohlberg’s stage 2 (satisfying one’s own needs). It is hard to judge whether she was at stage 3 (fairness to others), since she did not mention the interest of stockholders, employees, retirees of Enron, although her memo mentioned that Enron could implode from the business model and accounting cover-up.

In determining whether Watkins went far enough to bring her concerns out in the open is a bit like being a Monday morning quarterback. She did bring her concerns to the chair of the board. Should she have taken the concerns to the audit committee, independent member of the board, and/or the entire board? Should she have gone outside the company – to the SEC, or a news reporter? Was she waiting on a response from Lay? How much time was involved? Did she need time to sell her Enron stock before telling outsiders? Watkins has been a licensed Texas CPA since 1983; she may have felt constrained by the obligation of confidentiality. She tried to do the right thing perhaps for selfish reasons (i.e., concern about ever getting another job if Enron implodes). She did not carry through ethical thought with ethical action.

- 4. Do you think Betty Vinson was a victim of “moral blindness”? Why or why not?**

Betty Vinson’s situation at WorldCom: she knew it was wrong to “cook the books” but she did not act on those beliefs. Instead, she followed the orders from superiors and later justified her behavior by rationalizing it as a one-time act and demanded by people who knew accounting better than herself. She was concerned for her job, understandably, but did not see the big picture that the WorldCom fraud was hurting many people (i.e., stockholders, employees) and she might have been able to stop it. Thus, Betty did not act on her ethical intent and did not display ethical behavior.

Moral blindness is used to describe someone who can't tell right from wrong, rather than just choosing to ignore doing "the right thing." Since Betty knew that it was wrong to “cook the books” she was not a victim of moral blindness. She was weak in not staying true to her ethical values; she may have felt pressured and did not have a choice except to go along. That is different from moral blindness.

- 5. In a June 1997 paper published in the *Journal of Business Ethics*, Sharon Green and James Weber reported the results of a study of moral reasoning of accounting students prior to and after taking an auditing course. The study also compared the**

**results between accounting and non-accounting students prior to the auditing course. The authors found that: (1) accounting students, after taking an auditing course which emphasized the AICPA Code, reasoned at higher levels than students who had not taken the course; (2) there were no differences in moral reasoning levels when accounting and non-accounting majors were compared prior to an auditing course; and (3) there was a significant relationship between the Seniors' levels of ethical development and the choice of an ethical versus unethical action.<sup>39</sup> Comment on the results of this study.**

The results of the study show that ethical training and emphasis can make a difference in behavior, level of ethical development and the knowledge of ethical versus unethical. The study does not indicate the duration of the ethical training or optimal intervals of when to update the training. The discussion of the profession's codes of ethics keeps the expectations of the profession uppermost in one's mind. Even though discussion of ethics with students may lead to more ethical behavior, it still requires the moral conviction to act on what students might learn is the right thing to do as an accounting professional. It is this last crucial step that we should strive as educators to help students achieve in practice.

**6. Do you believe that a person's stage of moral development and personal moral philosophy play a role in how values and actions are shaped in the workplace? Explain.**

Starting an entry level position with a firm, it is hard to see how my personal values and actions can make a difference in the workplace. However, as I work up the career ladder, my values and actions can affect others in the workplace and the overall ethical tone at the top. I can speak out and voice my values when I perceive wrongdoing. I can make a difference if I know how to do so.

My values and actions can be highly affected, both for good and bad, by the workplace if my values and moral reasoning are not firmly established. For example, the Enron and WorldCom scandals were carried out by people who let their values be suppressed to do fraudulent acts by a workplace that demanded those acts – the Betty Vinson story. If I let others with values that are inconsistent with my own beliefs dictate what happens to me in the workplace, I forfeit the right to act on my personal moral philosophy and be true to my values and act on my beliefs.

**7. The nature of accountants' work puts them in a special position of trust in relation to their clients, employers, and the general public, who rely on their professional judgment and guidance in making decisions. Explain the link between professional judgment and ethical decision making in accounting.**

Past scandals like Enron, WorldCom and Waste Management, all with Andersen, LLP as the auditor, illustrate how a CPA firm can lose sight of its professional obligations. While examining a client's financial statements, the auditors at Andersen knew that diligent application of strict auditing standards required one decision, but that the consequences for the firm were harmful to

its own business interests. From an ethical perspective, the accounting firm compromised its professional judgment and acted out of egoism, failing to see that the rights of investors and creditors for accurate and reliable information had been compromised by its actions.

Responsibilities to each of these groups may conflict. For example, fees are paid by the client organization rather than by the general public, including investors and creditors who are the direct beneficiary of the independent auditing services with the result that the public interest may conflict with client interests. These conflicts might influence the cognitive development of auditors thereby influencing their ethical reasoning.

Ethical reasoning is an important part of professional judgment, such as the disclosure of sensitive information and auditor independence. The accountant's professional judgment is needed to determine if the financial statements fairly present the company's financial position in accordance with laws and accounting standards, but those statements contain options and ambiguities. A higher level of understanding is required to deal with these different presentations and disclosures, the options and ambiguities that exist within the standards, and the uncertainties of business life. This higher level of understanding is encapsulated in the post-conventional level of reasoning.

- 8. Windsor and Kavanagh propose in a research study that client management economic pressure is a situation of high moral intensity that sensitizes auditors' emotions and thus motivates their moral reasoning to make deliberative decisions either to resist or accede to client management wishes. Explain how you think such a process might work.**

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An auditor's independent opinion is supposed to be emotionally detached and objective in order to verify the accuracy and reliability of financial statements in light of the regulatory oversight of corporate financial reporting. Yet auditors are employed by large accounting firms which are economically dependent on the very companies that they are required to provide an independent verification of financial information. The accounting firms and individual auditors are dependent upon fees paid by companies for the audit. This payment of the fees by the client when the auditors should place the public interest before the client's interest causes an inherent conflict of interest. The client may think that payment of fees helps ensure that its interests come first. Auditors are human who may succumb to pressure from the client and let the public interest become secondary to the client's. The clients may encourage the auditors to think that the fees are truly for keeping them happy – or at least to portray “the client's side” of the picture about its financial results. The auditors must guard against an audit becoming a service to help the client gain a favorable appearance to the public rather than providing an independent verification and exposing real financial results. In other words, the public interest requires post-conventional reasoning not level 3 (in the clients' best interest).